

new revenues for local government

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1. introduction

To suggest new taxes is inevitably to incur odium. Nonetheless those of us who advocate additional taxes for local authorities hope for a kindlier fate. We do not propose to dip more deeply into the taxpayer's pocket, but merely wish to substitute one tax gatherer for another. We believe that local authorities should derive a greater proportion of their income directly from the local taxpayer thus reducing excessive dependence on the central exchequer. To this end the present pamphlet examines the case for new local taxes, for transferring existing taxes from the centre, and for increasing incidental income. The proposals are designed to cover both the local authorities' present obligations and the heavier responsibilities of the future. They are considered against the background of foreign practices.

Academic observers have long been critical of local government's reliance on a single local tax, the rate. Of late local authorities themselves have become more concerned, realising that they enjoy less financial autonomy than their counterparts in many other countries. In particular they have noted with envy the German local authorities' recent success in securing a broader tax base. Local finance is now a matter of public concern, and would be more so were domestic ratepayers not partially sheltered from local government's demands by a special rebate, a feature unlikely to last, and indeed already in process of modification.

It may be that the forthcoming local government reorganisation will offer the last chance for many years to put local government finance on a proper footing. In any case there is urgency, for structure and finance are inextricably bound together, and their reform must go hand in hand. Finance was excluded from the royal commission's terms of reference and is not dealt with in the white paper announcing the government's proposals for structural reform (*Local government in England. Government proposals for reorganisation*, Cmnd 4584, HMSO February 1971). (A green paper is now promised later). There are, therefore, no comprehensive financial proposals before the

country. In the hope of stimulating interest the Fabian Society asked me briefly to survey the principal suggestions which have so far been made for strengthening local government's revenues, the aspect of local finance most in need of attention.

Fewer, more powerful, more independent authorities, are to emerge when the local government map is redrawn. Those whose views are under discussion have sought for corresponding changes in our tax system, although as they were writing in the absence of knowledge of the exact shape of things to come they were not able to prescribe for a particular local government pattern. They have been undeterred by the pessimists who interpreted the exclusion of finance from the royal commission's terms of reference as implying an *a priori* judgment that supplementary sources of revenue are not likely to be found. However, only when the public appreciates more fully the issues at stake will the head of political steam necessary to force financial reform be forthcoming.

Local authorities employ two million people and spend on capital and revenue account together some £6,261 million a year, representing 15 per cent of the gross national product (GNP); a greater percentage than in the United States (12.8 per cent), but less than Sweden (16 per cent), Denmark (16 per cent), and Finland (18 per cent). In discharging their tasks of shaping the environment and providing a high proportion of the public services they thus dispose of a sizeable proportion of the country's resources and are an important element in economic and fiscal arrangements.

They enjoy three sources of income on revenue account: the local tax (that is, the rate), government grants, and miscellaneous sources such as service charges, rents, recoupments, and so on (see table 1). A clearer view of the relationship between grants and the local rate is obtained by showing how the *net* expenditure (that is after crediting the miscellaneous income) is shared between local and central taxpayers.

TABLE 1
SOURCES OF LOCAL GOVERNMENT REVENUE (1969-70)

	£m	per cent
rates	1709	34
grants	2222	44
Other income	1087	22
	5018	100
rates	1709	43
grants	2222	57
	3931	100

TABLE 2
SHARE OF LOCAL AUTHORITIES EXPENDITURE (GROSS) MET BY GOVERNMENT GRANTS

	per cent
Sweden	26
Finland	24
Norway	16
United Kingdom	43

source: The IMTA (Institute of Municipal Treasurers and Accountants) *Local income tax study group's report*. The IMTA recently commissioned from their members a series of studies on sources of local government finance. They were published under the following titles: *Rates as a source of local government finance* (February 1968); *Sales tax as a source of local government finance* (August 1968); *Local income tax as a source of local government finance* (August 1968); *Local charges as a source of local government finance* (December 1968); *Motor tax as a source of local government finance* (January 1969), this includes a bibliography.

(The figures in this table are illuminating but must be interpreted with caution, a qualification applying to all international statistics in this field.)

Judged from the standpoint of fiscal autonomy, English local authorities are not well placed in comparison with their Scandinavian counterparts (see table 2), who, in fact, have the form of local government most like our own. Most important of all is the recent deterioration.

The present (1970-71) percentage of 58 per cent of *net* expenditure met from grants, which five years ago was 55 per cent, is expected to be 59 per cent by 1972-73. In the absence of new local taxes the trend will continue, for local authorities, being responsible for the bulk of environmental and social services (health is the principal exception), must anticipate constantly mounting expenditure. With this in mind the royal commission prepared three projections of local expenditure; based on current standards of service, on a modest improvement in standards and on a generous projection. All three showed that the proportion of the GNP taken by local government will increase rather than decline. It is not a surprising conclusion in the light of local government's continuing obligations and of recent figures which show the social services currently growing at a greater rate than GNP. The underlying reasons are well known. They include, in addition to growth in population and changes in its constitution, society's altering expectations and values, the problems of a tightly packed island in a motor age and the legacy of the industrial revolution. Nor are the better planning and increased administrative efficiency which structural reform should bring likely materially to alter the future expenditure pattern, for reform has as one of its objectives that of bringing sub-standard areas up to the general level.

Local government will need a continuously increasing share of the national income for many years ahead, unless we are to abandon our aspirations for a better environment and society, or transfer part of the burden to the private sector. For all these reasons those propounding remedies for local government's financial ills have to allow for at least some degree of escalation in expenditure.

Increased expenditure can be met in three ways; from central taxation in the form of further government grants, from local taxation, or by increased charges, including the imposition of charges for services which are now free. Advocates of additional local revenues put them forward as an alternative to further de-

pendence upon, and eventually domination by, the central government. They foresee with alarm the time when local authorities will draw by far the greater part of their funds from the centre, at which point the elected members' accountability to the ratepayer will be eroded. The councillor will no longer spend the local ratepayer's money, but that of the taxpayer; the ratepayer's vigilance will be replaced by bureaucratic supervision. Scope for enterprise in developing or initiating services will scarcely exist; innovation will depend upon the centre. A source of local pride will have disappeared and inevitably the local sense of responsibility must ultimately decline.

Some satisfaction can be derived from the distribution of the greater part of these central subventions by general rather than specific grants; but even a well constructed formula grant grows less satisfactory as the amount distributed grows in size. A relatively small reduction in the number of children can make a disconcertingly large and unexpected variation in an authority's grant. Additional money provided by central instead of local taxation, will not of necessity be raised by less regressive means. The signs point, especially if Britain joins the EEC, to growing emphasis on indirect taxes at the centre. In any case local authorities should not be left at the mercy of the central government's willingness to increase taxation in order to provide additional grants. They would much prefer a direct financial nexus with their ratepayers.

Finally, there is the fear that if the local financial base is not widened, not only is representative local government threatened, but services may well be wrested from local government on the grounds of its poverty. Local authorities were naturally disturbed to read in a section of a green paper on the national health service dealing with the possibility of a unified health service becoming a local responsibility, a reference to "... the acknowledged difficulties of increasing local revenues and the problem of reconciling the continuing independence of

local government with continuing and increased support from the exchequer" (*National health service: the administrative structure of the medical and related services in England and Wales*, HMSO, 1968). The government was citing local authorities' existing lack of means as a reason why they could not control the health service. This is surely a negation of the proper principle, namely, that the services should first be assigned to the most appropriate level of government, and taxable resources should be allocated accordingly. In other words the finance should be fitted to the desired governmental pattern, not the other way around.

The belief that current trends in local government finance threaten local independence is widely shared and is currently a topic for discussion and comment by politicians, journalists and others. The treasury in their evidence to the royal commission spoke of the need "to secure that these authorities command sufficient rateable resources to finance a large part of the cost of the services they administer and so to have sufficient incentive to take spending decisions responsibly and to secure economy and value for money. This cannot be secured if the proportion of income from government grants is too high." (Written evidence of HM Treasury to the Royal Commission on Local Government in England, 1966.) The royal commission, whose terms of reference permitted only general reference to finance, were "clear that local government needs new sources of income". (*Report of the Royal Commission on Local Government in England*, Cmnd 4040, HMSO, 1968, para 539.) They also said "we for our part believe that a country desiring local self government should first decide what it wants local government to do and then equip it with an adequate local taxation system. Such a system must surely rest on a tax or taxes, locally fixed, for which the representative authority accounts to local electors" and "we are deeply concerned that the new local government shall be supported by an adequate financial system with sufficient revenues of its own." (*Ibid*, para 527).

2. Central and local finance

Local government finance and taxation form part of the national system and must be viewed in this context. Local financial operations must fit into the national plan, and their day to day operations must not frustrate national economic policy. Indeed local authorities have a positive duty to support national policy in helping to check inflation, stimulate economic activity and cope with temporary crises. Total local spending must, in both amount and direction, be broadly influenced by the central government, especially in the case of investment expenditure. What is now being sought is an additional local tax which fits into this conception and yet allows individual local authorities sufficient financial freedom to preserve their autonomy and political accountability to their electors. The financial relationship between central and local government cannot be completely tidy. Forebearance and tolerance are needed on both sides, for local authorities must accept the restraints of compliance with overall financial policies, and the central government must accept the marginal inconveniences, problems and complications created by the existence of a second tier of self government. These relationships are in any case due to be overhauled for other reasons. It is strange that they should still be based upon short term accounting and detailed controls, and unfortunate that the effect should be to allow locally elected authorities less latitude than many other statutory bodies, for instance, regional boards. The time is ripe for a redefinition in terms of areas of discretion, instead of the existing dependence on control of selected aspects which can take no account of variation in local needs.

As local government grows more concerned with comprehensive planning, urban renewal and control of the total environment, the more important local discretion becomes. The texture and quality of the local environment are not matters to be settled by detailed decisions of separate Whitehall departments or the operation of public expenditure control by what has been described as a "mammoth cash account approach".

Fundamental thinking is called for, and it is to be hoped that the government and the associations of local authorities are engaged upon this task. Their aim should be to secure a relationship such as that operating in Sweden which ensures compliance with broad national plans and yet allows local authorities much more autonomy than English local authorities enjoy.

From the expenditure point of view mechanisms for keeping local authorities in line with national policy already exist. Investment expenditure is closely controlled, and it happens that because of the facilities for scrutiny of local government finance built into the rate support grant system, the treasury has a unique means of influencing revenue outlays. Each year the total amount to be distributed in annual revenue grant is fixed by reference to the aggregate amount which the central government believes that local authorities should spend, and is therefore willing to recognise in calculating the grant pool. This device coupled with close control of local investment programmes, provides, in the words of the treasury itself, "a powerful instrument for influencing the general attitude of local authorities to expenditure in the years concerned, since they will have to meet any expenditure, over and above the total of the estimates as scrutinised, out of their own resources". The grant mechanism could also be used to redistribute income from local authorities' own taxes. Indeed, tax resources in London have for years been redistributed through a pooling arrangement.

The method may have its defects from the local authorities' point of view, but from the treasury's angle it represents an effective overall influence which a substantial reduction in dependence upon grants would not impair. Even under the present financial arrangement there is therefore nothing to preclude a taxation nexus with the local electors, which is real and not merely nominal, and is at the same time more in accordance with the principle of placing the responsibility for raising funds in the place where they are to be spent.

3. approach to a solution

What then is sought? There is no serious suggestion that rates should be dispensed with. On the contrary they would continue to be the principle local tax. Grants would also remain because for many reasons they are an indispensable feature of all local government systems. To the extent, however, that they are used as a substitute for local taxes they are objectionable and an indication of failure to distribute tax resources fairly between the levels of government. The English grant system is now in this position. A sizeable block of government grants should be displaced by a new local tax or taxes. There is no gain and a good deal of harm to local autonomy in the central collection and filtering back through the grant mechanism of monies which the local authorities could well collect themselves. Soon, if the present trend persists, 60 per cent of local government's net needs will be met by grants. A reduction to some 20 per cent to 30 per cent would increase local government's sense of responsibility to rate-payers and would materially increase local freedom of action. To the extent that the additional resources merely replaced grants there would be corresponding relief to the exchequer; no immediate increase in total taxation would be involved. There is, however, another aspect, the trend of expenditure. Unless the development of services is to be halted, local government will need more money in the future. Under existing arrangements an increasing proportion of these additional requirements would fall to be met by the central government. In the future even more than at present, exchequer subventions in this country would become substitutes for adequate local taxes.

Most of the suggestions to be discussed in this pamphlet take the form of transferring a central tax to local authorities or empowering them to levy supplements on central taxes. Proposals for completely new taxes are scarce, a reflection of the central government's thoroughness in exploiting the field for its own purposes. There is a consensus of opinion that whatever form the new taxes took local authorities should themselves fix the rates

of levy, but within limits prescribed by the central government. Failing this power, a new tax would be more of an assigned revenue than a genuine local tax, even if the local authority were receiving the local proceeds of the tax and not a mere allocation of the country-wide yield.

All taxes have flaws, and one is consequently seeking for a balance of advantages rather than a categorically clear solution. The greatest danger (that taxes will be considered and rejected one by one because each has weaknesses) was alluded to by the royal commission in the following terms: "We do not wish to discuss the merits and demerits of specific proposals. We hope, however, that taxes will not be considered piecemeal, each one being discarded because it has some disadvantages as a local tax. All local taxes (like all other taxes) have their own disadvantages, and arguments can be produced against the allocation to local government of any one tax, whether existing or new" (*Ibid*, para 536).

That local taxes are really an integral part of the national taxation system has been kept in mind by all advocates of local taxation reform. In all the major studies space has been devoted to economic effects; in particular to the use of taxes as economic regulators and as devices to correct imbalances, whether long term or short term. Care has been taken to avoid taxes which would enable local authorities unwittingly or otherwise, to frustrate central government policies. There has also been a desire to find a genuine tax which, together with the rates, would provide local government with a really firm tax base, complying with the classic canons of taxation: ability, certainty, convenience, clarity and economy. Dependence upon a single local tax, the rate, is incidentally one of the more dubious English legacies conferred upon territories formerly subject to English influence.

Proposals for additional taxes have naturally been devised in the light of the development of the computer, which makes it possible to think in a new

dimension, especially for local taxes levied as supplements to national taxes. The Royal Institute of Public Administration (RIPA) for instance were able to make very different suggestions for a local income tax in 1968 than was possible in 1956. (*Sources of local revenue*, S. H. H. Hildersley and Raymond Nottage, Royal Institute of Public Administration, 1968. *New sources of local revenue*, report of a study group of the Royal Institute of Public Administration. Allen and Unwin, 1956). The new local authorities will possess high powered computers and should be capable of assessing and collecting any reasonable local tax. Alternatively any taxes assessed centrally on behalf of local authorities could be attributed to the appropriate local authority area and the proceeds readily dissected and distributed with the aid of the central government computers. Ideally local authorities should collect their own taxes if only to reinforce the local taxpayer's sense of civic responsibility. However, this ideal need not exclude centrally collected local supplements to such taxes as those on sales, petrol or income, provided the central government is acting as the agent of the local authority. There are many foreign examples of shared taxes. Austria, for example, has a highly developed system.

local government reform and local taxation

In this country, to the surprise of visitors from abroad, finance plays a relatively small part in discussions about the local government structure. The reason is that disparities in wealth between areas are materially reduced because of the resources component in the rate support grant which distributes £2422 million a year on the basis of simple criteria; a phenomenon made possible by the relative homogeneity of life and conditions in this country.

Whatever may have been the part played by finance in former reorganisations, to regard it as unimportant in the current review would be disastrous. What is at stake is not merely the question whether the changes will disturb rate burdens as

between inhabitants of one area and another, but the future of English local government's autonomy and independence. Local government has arrived at a stage when dependence upon the treasury is reaching disturbing proportions. Central control of local government in this country is far more stringent than in the US, Canada and the Scandinavian countries. In West Germany too, where the position is admittedly more difficult to judge, local authorities are on the whole less fettered. Central guidance in major activities is inevitable, but as local tax resources become more and more overshadowed by government grants, local authorities are likely to become less and less able to indulge in the marginal extras they want, and would be prepared to pay for, if they had more taxable resources. Without fiscal changes, genuinely corresponding to the structural changes now pending, local authorities are in danger of occupying a position of even greater comparative inferiority.

Authors of the tax proposals discussed in this pamphlet had to make broad assumptions about the possible future local government structure, the chief of which was that areas and populations would on the average be appreciably greater, though not necessarily of regional or metropolitan proportions. They did not provide for any particular pattern; they regarded their suggestions as valid for any likely comprehensive reform. The government's proposals were broadly in line with their expectations. However, though some local taxes (of which the existing rate is an outstanding example) can be operated equally well in large or small areas, others such as a general sales tax would be more easily applied to authorities of considerable size. Though a redrawn local government map coupled with a new taxation system should bring at least a measure of equalisation between one authority and another, differences in size and resources would remain. They are a general feature of local government systems; every country has its Welsh valleys or Swedish Laplands. We have in the rate support grant, however, a better instrument than most for correcting such inequalities.

4. local taxes

To lay down broad principles to govern local government finance and its relation with national finance is a relatively easy task, to apply them is more difficult, and to find viable local taxes is harder still. Some of the overriding features of a local taxation system have already emerged, examples being the need for the local authority to control the rate of the local taxes, the duty upon central government to refrain from encroaching upon the local tax field, and the desirability of finding taxes which are complementary to one another. It remains briefly to consider the criteria to be applied in judging the merits and demerits of specific suggestions for supplementary local taxes. To be acceptable they must comply with the classic canons already mentioned of ability, certainty, convenience, clarity and economy, and must also possess the special qualities of a local tax. In addition their merits have to be assessed from the standpoint of local effectiveness and of compatibility with national taxes. The technical relationship between the two has also to be considered; for instance are local tax payments or assessments to be deductible from central income tax?

The search is for a tax with a genuine local flavour; one related to local possessions, as is the rate; to local incomes or earnings, as is a local income tax; or to activities within the area such as sales, purchases or gambling. The yield in relation to responsibilities must not be glaringly unequal as between one authority and another. A shared tax with higher authorities qualifies as a local tax only so long as the local authorities receive the local proceeds and not an allocation of the national yield. The conception of locality is naturally not without difficulty: for example a local income tax might accrue either to the area in which a taxpayer lives or that in which he works; a fleet of motor vehicles may be taxed either in the area where it is kept or in the area in which the company's headquarters are situated. Localisation brings the possibility of avoidance in some taxes, for instance sales taxes, rates differ significantly, a feature to which considerable attention has been

paid in the United States. Taxpayers' reactions are in any case a factor to be considered in devising new taxes.

Reasonable stability of yield is another desirable quality, if only because so much local expenditure relates to essential services. To depend entirely on a sales tax would therefore entail risks in times of adverse trade. Stability does not imply a static yield. A tax to be acceptable should be responsive to inflationary trends. Most taxes, including the rates, possess this quality to some degree or other. Stability is also related to another canon of taxation, that of productivity. This means not merely that the yield must be substantial and must keep pace with inflation, but also that it should reflect the growth in activity. Income, corporate and enterprise taxes are obvious examples of productive taxes. Costs and difficulties of assessment and collection cannot be ignored, and have received attention in all serious discussions of additional tax revenues. At the one extreme of economy of collection would lie supplementary taxes collected together with central government imposts; at the other would be an income tax which the local authority itself collected. Rates are relatively cheap to collect, despite the facilities now provided for collection by instalments. It is important that tax bases should be kept up to date. Obsolete valuations for local tax purposes are unfortunately only too common throughout the world. Once established, they create vested interests with political overtones and are extremely hard to get rid of.

From the taxpayer's point of view, a tax within his ability to pay, and which does not bear proportionally more heavily on the less well off (in other words, one which is not markedly regressive) is obviously desirable. The English rating system is regressive to the extent that the rental value of a house does not necessarily vary in proportion to the occupant's ability to pay. Some countries, notably Sweden, manage to make the local tax proportional to a man's income; a truly progressive tax (that is one which imposes a higher rate of tax on each slice of income) is in fact un-

common in local government. Convenience is also important to the taxpayer who will prefer in this respect a sales tax or a withholding tax (such as PAYE) to the local rate, except perhaps in the case of a weekly tenant who pays rent and rates together. It is, however, desirable if the principle of political accountability is to be preserved, that he should be made aware of the amount he is paying in local taxes, even if the tax is collected by the central government on the local authority's behalf.

local taxation systems

To help to put the problem into perspective it will be useful before considering individual taxes to take a bird's eye view of the kinds of taxes used abroad, aided by the survey made in 1969 for the International Union of Local Authorities' Vienna Congress by the present author. In the congress report, replies from 33 countries to a questionnaire on local finance generally (not only taxation) were printed *in extenso* together with summary tables and a commentary. (*Local government finance*, A. H. Marshall, International Union of Local Authorities, The Hague, 1969.)

Ideally, local authorities would be allowed a choice of taxes, including the right to introduce new taxes, and the power to fix their base and rate. Though such a situation does not exist, the latitude allowed varies from country to country. Local authorities in the United States have been able over a period significantly to supplement their tax on real property by a variety of other taxes. In Austria local authorities select from a list. A theoretical power to initiate taxes, such as that possessed by Belgian local authorities, or in a different way the right of English authorities to promote bills in parliament, is often found to be ineffective. Local authorities in many countries have, as they have in England, unfettered power to determine the rate of the local tax or taxes. In other countries a ceiling may be prescribed by law, or central consent may be needed to resolutions fixing taxation rates. Whether

these devices cramp the local authorities depends upon the attitude of the central authorities in fixing the height of a tax ceiling. A bewildering variety of local taxes are to be found. Almost every known kind of tax (even customs duty) has been pressed into local government service somewhere in the world, so that an international precedent can be found for almost any proposal. Generalisations on the subject are subject to reservations and qualifications, and in any case categorical judgments about an individual country could not be made, except in the context of its whole taxation system. Nonetheless many interesting points emerge from the 33 replies.

Some local taxes are levied separately and are exclusively local government taxes. Others take the form of supplements to taxes levied by higher authorities. Such taxes import a welcome element of diversification, but are less satisfactory in so far as they are not completely under the local authorities' control. Nor can they foster, as can a local tax, a sense of political accountability at the local level. The essential point is that local authorities should have power to fix the tax rate. Local taxes can be broadly classified as follows: (a) taxes on owners and occupiers of real estate (that is land and buildings); (b) taxes on income including income on property; (c) taxes on enterprises; (d) indirect taxes; (e) taxes on the standard of living.

Taxes on owners or occupiers of real estate, are the most common, though only in countries subject at some time or other to British influence are they normally the sole local tax. Scandinavian countries are envied by others because their local authorities enjoy a local income tax, and consequently have greater financial strength than their counterparts elsewhere. Taxes on enterprises are prominent in Austria and Germany. Indirect taxes, or traces of them, exist almost everywhere. Even in this country local authorities enjoy the minute dog tax, and there are many countries relying upon indirect taxes for a substantial part of their income. Examples are taxes on consumption, either on total sales or on

selected sales, such as motor fuel, or tobacco; taxes on production (mostly in developing countries); taxes on the right to trade (that is licences); taxes on professions; and taxes on advertisements. The final category, taxes on the standard of living (for instance, hunting or servants) are declining in importance with the more equal spread of wealth.

In 1969, as in 1955, when the international union previously discussed local taxation, the most striking feature to emerge was the advantage of taxes on income and enterprise which were commented on in the 1969 report as follows: "There is surely some connection between the existence of a local income tax in Finland and Sweden and the financial independence of local government in these countries; and also in the ability of Austria and Germany, countries which also have access to productive taxes, to meet a high proportion of their expenses from their own revenues. Taxes which grow automatically with a buoyant economy clearly have advantages." (*Ibid*, page 22). The happy financial position of Swedish local authorities and the recent local taxation reforms in Germany are briefly described later in conjunction with proposals for a local income tax.

The German proposals occurred too late for inclusion in the congress report, but were explained by a German delegate. German local authorities now enjoy a uniquely broad base of local taxation, and have attained this position by their own exertions, no mean feat in the light of Germany's complex tax arrangements. The coping stone has, however, yet to be put in place: power to the local authorities to fix the rate of the supplement. German local authorities hope to achieve this in the forthcoming general review of taxation.

Another example of tax diversification comes from the United States where there is a growing use of "non-property revenues such as sales taxes and income taxes". During the past 50 years dependence on the property tax there has declined from 97 per cent to 87 per cent of local tax revenues taking the country

as a whole. The variation between the American states and between authorities within the states is very great. Non-property taxes are largely (but not wholly) a city phenomenon and in some of the largest cities more than half the tax revenues are non-property. Consumer taxes, that is sales taxes, are the most popular. Income taxes are, however, growing. Many American local authorities are thus gradually freeing themselves from complete dependence on property taxes; an outstanding achievement.

In contrast there are countries which are disturbed because obligations tend to outstrip financial obligations and yet have so far found no satisfactory remedy. South Africa is an example. Canada, which like South Africa has retained the English custom of dependence on a property tax is facing in some provinces a loss of services because of insufficient tax resources. "Even this traditional tax" they reported to the 1969 congress "is no longer an exclusive domain of the municipalities; the Province of New Brunswick now levies a standardised mill rate on equalised property assessment."

No novel suggestions were made at the congress, the rapporteurs' comment being "it seems unlikely that completely new taxes will come to light. New taxes are not even referred to in the answers. Local authorities may well be driven back on the willingness of higher authorities to transfer taxes to local government or to share with their local authorities some field of taxation. Inevitably envious eyes will be cast first upon the taxes of income, both personal and corporate."

Britain's situation, viewed in an international context, was disturbing. We appeared as a country whose local authorities had an above average span of duties and yet derived a low percentage of revenue from their own taxes. The other two countries in the same group were the Netherlands, where local taxes have practically disappeared, and Denmark, where there seems to have been a failure to develop what might have been a promising tax situation.

The history of Dutch local government taxation, unique among western democracies, is worth serious thought. In 1932 local authorities in the Netherlands lost their most important powers of taxation. Today only some 10 per cent of their tax income is derived from taxes under their control. The remaining 90 per cent comes from a municipal fund, fed by a percentage of the produce of all taxes, and distributed to local authorities on a formula not dissimilar to that employed for the rate support grant in Great Britain. Individual authorities have thus no power to regulate their tax income other than that from the minor taxes, the 10 per cent. They have but limited power over the total volume of their expenditure; their inhabitants can have what they want only if it can be squeezed out of the allocation. The budget time exercise is that of allocating a predetermined sum, rather than fixing the level of taxation. The results are serious inroads into local independence, and recently a tendency for local authorities, especially the larger towns, to run into deficits. The Dutch, with characteristic reasonableness, try to make the system work with as little irritation to local government as possible. A national council for municipal finance, upon which the local authorities are represented, manages the fund and makes policy representations, which are normally followed by the minister. Higher authorities also operate with restraint their power to approve budgets. They are also not ungenerous in determining the size of the pool. The local authorities are, however, in no doubt about their financial disability.

5. the alternatives

The rates are local authorities' sole tax in Britain, producing £1709 million per annum and exceeded in yield in our taxation system only by income tax (£4907 million) and national insurance contributions (£2005 millions). Rates have many merits. They are well established and well understood, for land and buildings are perhaps the most obvious of all subjects for local taxation. The Allen committee, which examined their impact, found them neither onerous nor seriously regressive. Indeed they possess an element of proportionality, and even of progressiveness in so far as the "repairs" allowance made in arriving at the rateable value is proportionately more for smaller properties. Evasion is difficult, local authorities having automatic access to information enabling them to establish the ratepayer's liability. Collection is easy and cheap, and bad debts are negligible. Rating authorities now accept payments by regular instalments, so rates no longer need to be paid in disconcertingly large sums. (Over 40 per cent of domestic ratepayers pay rates together with rent). There are no sophistications requiring highly skilled official staff other than for valuation purposes, and rates do not demand an army of accountants and lawyers to look after the taxpayers' interests. Accounting is simple. Rates have the advantage of allowing fine adjustments in the rate in the pound, and they can be handled equally well by large and small authorities.

Rates have however, a regressive element. A citizen's ability to pay is not measured by the value of his dwelling, despite the element of proportionality mentioned above. The poorest citizens find that, however modest their home, rates absorb a disproportionate part of their income. The citizen of limited means who lives in a house too large for him is in the worst position. There is, moreover, some inequity between the different classes of ratepayer; domestic, industrial and commercial. It is not easy to find a basis of valuation which does justice to a commercially run cemetery or a public utility undertaking as well as to private dwellings. It is not correct to assume that rates have risen

disproportionately to other outgoings, or in the case of domestic properties to the growth of the GNP. A white paper issued in 1966 (*Local government finance, England and Wales*, Cmnd 2923, 1966) justified the relief to domestic properties, a new feature of rating, as a device to keep rate poundage more nearly in line with the growth of the economy as measured by the GNP. James Cadigan, writing in October 1970, pointed out that since 1967 domestic rates had grown more slowly than the GNP ("Domestic rates are far too low", article in *Local government Chronicle*, October 10, 1970). He calculated that had the two kept pace, £134 million more rates would have been collected from domestic ratepayers during the period from 1966/67 to 1969/70.

Social legislation provides for national assistance to cover rate payments, and some 12 per cent of households receive assistance in this way. If it were not so local authorities would hardly be able to achieve the near 100 per cent collection in which they take pride. Then for those whose incomes are low, but who are not eligible for national assistance (the class the Allen committee found to be burdened by rates) there is a rate rebate scheme. Thus the sting has been taken out of the charge of regression. Considered in the round, and as one tax among many, the rate is fundamentally sound and can be readily defended both in theory and practice. It is likely to remain the chief source of local revenue. The practice of both rating and valuation, however, falls short in several important respects. Consequently rehabilitation of the rating system must take pride of place in discussions about sources of local revenue. Foremost among the shortcomings is the sorry state of rating valuation. Rating assessments should represent letting value as defined by the statutes, and should be revised every five years. Since the central government took over responsibility in 1950 only two revaluations have taken place (in 1956 and 1963) and the revaluation due in 1968 was postponed until 1973. A shortage of valuers was the official reason for postponement. In the 'fifties there was, however, another reason;

the government shrank from the political unpopularity of bringing the values up to the proper figure. Had the local authorities remained responsible it is extremely unlikely that the valuation would have been postponed.

Failure to keep the list up to date is not, however, the only complaint. At the last valuation, hurried compilation led to rough and ready methods, notably wholesale application of multipliers to old values. The result, set out in the Milner-Holland report (*Report of committee on housing in Greater London*, Cmnd 2605, March 1965), was that a high proportion of London values, possibly a quarter, were inaccurate. This discovery brought into public view the inability of the short staffed valuation department to arrive at correct values in the time at their disposal. Fortunately it was possible in the provinces to make somewhat better valuations. Valuers' difficulties should not be underestimated. Direct evidence about rental values of dwelling properties is scarce, for about half of the total dwellings in the country are owner occupied, two sixths are subject to artificial rent constraints, and of the remaining one sixth only a proportion have market rents in the statutory sense. The lesson to be learned from this and other technical features of the current list is that the 1973 valuation must be comprehensive, thorough and made with the aid of modern sampling techniques. One can but hope that the valuers released through the abolition of the land commission will be used to strengthen the existing exiguous staff, and that the government will not be swayed by political pressures into compromises in applying valuation principles, as have so many governments during the last 80 years.

Among the issues now being widely debated is that of changing domestic property valuations from rental to capital values, the basis used in most other countries. The pros and cons are fairly evenly balanced. From the point of view of yield, capital values are more elastic, while rents are more stable. In favour of capital values, advocates cite the greater volume of available evidence and in-

creased clarity to the ratepayer. Supporters of the rental basis point to greater stability, to freedom from accidental influences, and to the vast technical task involved in a change, for present practices have been laboriously built up over many years. To apply capital values to properties other than domestic properties would bring even greater difficulties. Some observers think that rental values should be retained for non-domestic property, and that a thorough investigation should be made into the possibility of using capital values for properties. Others do not think such an investigation worthwhile, and simply advocate capital values for domestic properties and the retention of rental values for others: they assume the conversion of capital values into annual values for purposes of compatibility. Changes on this scale could hardly be made before the 1978 valuation.

Rating history is strewn with instances of relief to particular classes of ratepayer. Agricultural land and buildings have been progressively relieved of rates since the end of the last century, and since 1930 have made no contribution. Recently the government extended the relief to broiler houses and introduced a bill for partially derating mines and quarries. Industrial property was partially derated for a considerable period and commercial premises for a shorter period. These abatements were removed at the time of the 1963 revaluation. In 1967 history repeated itself when concessions were made to occupiers of domestic property, this time by means of an allowance in the rates instead of in the rateable value. These reliefs, largely political in origin, are difficult to justify and to withdraw. There is little to be said in favour of the current differential domestic rate, a different device from the rate rebate which represents a valuable means of mitigating regressiveness at the points of greatest hardship. On the other hand the differential domestic rate applies indiscriminately to all dwellings. It is to be hoped that it will be gradually phased out, and that in 1973 the opportunity will be taken in the inevitable upheaval of the new valuation

list finally to discontinue the concession, as happened with industrial and commercial derating at the time of the 1963 valuation. Public utility undertakings, having no market sale or rental values, are valued upon a formula basis which must in the nature of things be artificial, the result partly of history and partly of a bargaining process. The lag between the growth of these undertakings and of their assessable value has become a matter of concern to local authorities in recent years. There seems to be but little doubt that the basis should be overhauled.

Advocates of site rating, either as the sole rate or in conjunction with separate rating of buildings, are still to be found. Under site rating land is valued as a cleared site whether or not it is in fact developed. The argument is that rates then cease to be a deterrent to development and become instead an incentive, for owners will not wish to leave vacant plots with development potential. Rating of this kind is employed in several countries, for example in South Africa and Australia. It has immense practical difficulties in that the process of determining what might be the value of sites in a city centre if the buildings were not there, becomes highly artificial and complex. There is little evidence to show that cities with site valuation have greatly gained by it; and none to show how it would work with such stringent planning regulations in force as there are in this country. Moreover, sites alone would be unlikely to yield sufficient for the current and prospective needs of local authorities here.

Of immense importance is the case of agricultural land and buildings; the total exemption of which is the most illogical feature of local government taxation. Local authorities are in effect subsidising agriculture to the extent of some £100 million a year; assistance which if it is needed at all should be given by the central government. The main obstacle to the rerating of agricultural land is no doubt political and would come from vested interests. Otherwise this is a reform which would have wide support.

The other difficulty, that of surveying, valuing and recording agricultural land could be overcome in time. The dissolution of the land commission should liberate valuable surveying staff. The Association of Municipal Corporations has suggested that the task might be less formidable than has been thought, in as much as rental evidence for land and buildings may well be more readily available than for some other kinds of property. Entry into the common market might present an opportunity to make this much needed adjustment in the country's fiscal arrangements.

Finally an interesting suggestion by D. G. Barrett for a permanent independent rating and valuation commission representing both central and local government should be noted ("The modernisation of the rating system", Article in *Local Government Finance*, July, 1970). The commission's duties would be to carry out the valuations and to keep rating and valuation under continuous review in the hope that its non-political status would put an end to tampering with rating and valuation practices for political reasons.

income tax

Understandably, to local authorities the most attractive proposition is a local income tax. A productive tax, keeping pace with local incomes and conforming with the canon of ability to pay, it secures a contribution from those who at present escape direct payment such as lodgers. It would make the ideal complement to the rates. Further, its complications, once intimidating, are no longer a serious obstacle with the advent of the computer and the separation in the national system of corporate and personal taxation. Among the disadvantages are fluctuations in yield, the difficulty of localising income, and possibly some lag in collection. Too great a dependence upon local income tax might put some local authorities at the mercy of the prosperity of a single local industry, especially if both personal and corporate incomes were taxed. However, the larger the scale of

local government the more powerful the arguments in favour. Reorganised local government on the scale now proposed would thus facilitate its adoption.

Instructive examples of local income taxes are to be found abroad, particularly in Scandinavia, some of them providing weighty evidence in its favour, even after allowances are made for differences in national conditions. Sweden, having a long established local income tax, pre-dating the central income tax, is the classic example. Local authorities there fix their own rate of taxation, at present usually a little over 20 per cent of taxable income. Both individual and corporate incomes are taxed, individuals paying to the authority in which they live. The tax, which is proportional to income, falls somewhat more heavily than the central income tax on smaller incomes, but the amount paid is allowed as a deduction from the central tax. The elasticity of yield is shown by the extent to which Swedish local authorities have over the past few years increased their revenue contributions to capital outlay. In 1969 60 per cent of the capital expenditure was defrayed from revenue as compared with 22 per cent in 1952. The Swedes have claimed for many years that their high degree of local independence is largely due to the financial autonomy which their local authorities enjoy. Beyond doubt they are in a uniquely fortunate position. Their experiences and practices are worth the closest study by other countries. In setting out their case the IMTA study group produced a deal of interesting information, including table 2 in this pamphlet, which showed how much less Scandinavian local authorities depend on grants than their English counterparts. (*Local income tax as a source of local government finance*, IMTA, August 1968.)

Recent German experience is also of special interest. Until 1970 German local authorities were less well off than the federal government or the states (the *Länder*) despite their broad tax base. They levied a tax on the profits and capital employed in businesses (known as a trade tax), a tax on property, and

they possessed miscellaneous taxes (such as those on liquor, beverages, entertainments, hunting and dogs) which accounted for 5 per cent of their tax income. Some three years ago the associations of local authorities mounted a campaign to secure a share of the income tax to balance the business tax which, though an attractive source of local taxation, unduly favours industrial towns. From 1 January 1970 the local authorities relinquished a part of the trade tax, and now receive in lieu a share in the income tax amounting to 14 per cent of two thirds of the income tax derived from their area. (Two thirds represents the amount allocated to the states, the federal government retaining one third). The income tax is therefore now divided between the three levels of government. At the same time the financial resources of the states have been strengthened to allow more generous specific grants to local authorities.

In the United States the imposition of an income tax, levied first in Philadelphia in 1939, has been one of the ways in which inroads have been made into dependence on the property tax, at one time almost complete and now significantly reduced. Local income taxes, which are levied only in some cities, take many forms, some being levied in conjunction with the states and some independently. As would be expected from Scandinavian experiences the authorities with such a tax tend to be those enjoying financial strength. American income taxes are simply constructed and generally apply to salaries and wages only, with no allowances. They are usually collected at source. Rates of tax are low: often only 1 per cent. Though income taxes are levied in comparatively few cities, they produce a substantial income in those cities (and some counties) where they are used. Local authorities in Pennsylvania and Ohio make particular use of them. In several Ohio authorities income tax collections greatly exceed those of the property tax.

In England as long ago as 1899 a royal commission on local taxation discussed in four short paragraphs the possibility

of a local income tax. In 1914 the idea was again put forward and considered more carefully by the departmental committee on local taxation. Among the objections cited were the complications of apportioning the incomes of the "great land owners", the difficulties of identifying the areas of derivation of the taxes, and the problems presented by enterprises extending over more than one local authority. The committee became concerned with the complexities, and eventually rejected the tax on practical grounds. The Inland Revenue, who disliked the proposals in general and particularly the idea of central collection, suggested local collection as an alternative. The modern enquiries have been those of the RIPA in 1956 and 1968 (*New sources of local revenue*, report of a RIPA study group, Allen and Unwin, 1956; *Sources of local revenue*, S. H. H. Hindersley and Raymond Nottage, RIPA, 1968) and the IMTA in 1968. (*Op cit*).

The RIPA's 1956 recommendation, the result of a most extensive enquiry by F. A. Cockfield, a former commissioner of Inland Revenue, was for a small payroll tax with a maximum of 3d. in the £1, deducted at source and levied on gross pay without allowances. The self employed were to be separately assessed; investment income was to be covered in the same way. The tax was to be personal; the undistributed income of companies was therefore excluded. The proposal was admitted to be rough and ready and suitable for adoption only at a low rate in the pound.

In re-examining the possibility of a local income tax on behalf of the RIPA, the authors of their 1968 review pointed out that the possibilities of a local income tax were improved for two reasons. First, separation is now made in national taxation between corporate and personal income. A personal income tax is therefore easier to devise; the main complication being that of "close companies". Second, the computer greatly facilitates assessment and collection. (The Inland Revenue hope to become fully computerised during the 'seventies.) Thus they felt able to put forward a comprehensive

scheme for taxation of all personal incomes, leaving only the income from close companies for further study. The rate of the income tax was to be fixed by the local authority, subject to a limit to be prescribed by law. The tax was to be calculated and levied by the local authorities on the strength of information about assessable income passed on by the Inland Revenue, who would in this way be playing the same rôle for local income tax as they do at present for rates, that is they would fix the assessments and transmit them to the local authorities. The authors did not, however, see their way to recommend the extension of PAYE to local income tax, because of the burden on employers of passing on contributions to many different local authorities; hence their recommendation for direct collection by the local authorities. Though this was admitted to be a considerable task, the authors recognised that local authorities are well accustomed to cash collection problems. They thought that the development of the Post Office Giro would help, but the cost of collection would inevitably be greater than that of collecting the local rate. Finally, because the introduction of a local income tax might well have to await the completion of the Inland Revenue's computerisation scheme, the authors recommended as an immediate candidate for adoption a motor fuel tax.

The IMTA group concurred with the RIPA's analysis of the problems and with many of their conclusions, but went farther in propounding a scheme which could be carried out independently of the Inland Revenue. They believed that this could be operated without involving unreasonable administrative costs, though the scheme would also be workable through the Inland Revenue. They suggested that the tax should be as simple as possible and should not incorporate personal allowances, though the first slice of income would be exempt. Local income tax would be deducted from national income tax. Unlike the proposals of the RIPA, the IMTA's suggestions included a tax on corporate incomes. This was not to be based on taxable profits but on the rating assessment

and was to be levied at the central government's current corporation tax rate. However, as the amount paid was to be allowed as a deduction from central income tax payment (not the assessment), the final effect was to divert a slice of the central government's corporate tax to local authorities.

There were some further complications, for instance the group proposed to operate the tax in conjunction with the abolition of the domestic rate rebate. Annual collection costs for the complete scheme were estimated at 75p per taxpayer. Employees' tax would be collected by the employers by deduction from pay. All suggestions for extra local taxation imply alterations in government grants, in so far as their immediate object is to substitute local tax revenue for government subventions. The IMTA income tax group's proposals would import another element into the adjustment because they would involve a direct reduction in the central government's tax revenues, both from personal and corporation tax because of the proposal to allow local income tax payments to be deducted from national tax payments. The group pointed out that a local income tax would be particularly appropriate for local authorities of regional dimensions. They had in mind that if used for smaller units the yield *per capita* would be more unequal as between one authority and another. To reach the group's objective of reducing dependence on government grants to about 20 per cent a local tax rate of about 10d. in the £1 was anticipated, assuming the tax was levied on gross incomes with no personal allowances or other adjustments.

The investigations made on behalf of the two institutes confirm the view that a local income tax would be practicable in this country, as it has been found to be in a number of other western democracies. It would be feasible at various degrees of sophistication. It could be administered by the central government, independently by the local authorities or by co-operation between the two. The more elaborate the scheme, the stronger would be the case for using the Inland

Revenue's machinery. If, as Anthony Barber said in his 1971 budget speech, changes are to be made in the near future in central income tax practices, the possibilities of introducing at the same time a local income tax should most certainly be considered. In any case the eventual computerisation of income tax administration could reasonably be expected to embrace facilities for a local income tax. Foreign experience clearly points to income tax as the most likely long term solution to the problem of financing local government. The larger the scale of local government the more powerful the arguments in favour. Re-organised local government on the scale now proposed would thus facilitate its adoption; to which end local authorities should work.

sales taxes

Sales taxes, known by various names, are indirect taxes borne by the consumer. They may be levied at the final consumption stage or at successive stages in the course of manufacture or preparation of a product. They may be selective in that they are applied to particular commodities or services, or indiscriminate taxes on sales generally. They can be classified as follows: (a) sales tax levied at the point of sale to the consumer; (b) purchase tax levied at the wholesale stage; (c) cascade tax levied at the successive stages of production of the various components of a product, involving cumulative tax in the sense that the value upon which the tax is levied at each stage includes the tax levied at previous stages; (d) value added tax, a tax levied at successive stages but without the cumulative element. Each taxpayer is charged only on the value that he has added.

Sales taxes are an important part of most national taxation systems. General and selected sales taxes are used in the USA, cascade taxes are employed in several European countries, whilst value added taxes are operated in France and Germany and have been adopted by the EEC as the model for a turnover tax.

Sales taxes are to be found among local taxes in many countries, for example France has the *taxe locale*. The United States offers the most interesting example, for there the sales taxes have been the principal means by which the dominance of the property tax has been eroded. First introduced in New York City in 1934, they are now levied in many cities and many states. California is an outstanding example, where the sales tax accounts very largely for the relatively strong position of local authorities. General sales taxes are preferred, though selective taxes (on say motor fuel, alcohol, beverages or tobacco) are also known. The most popular selective tax is that on public utilities. Sales taxes now play an important part in American local government finance.

Several advantages may be claimed for sales taxes. They are fruitful in that they reflect spending power and are related to current economic activity. Except in so far as they are levied on necessities they incorporate an element of choice. The consumer pays as he purchases, which greatly simplifies collection. They are uncomplicated, well established and readily understood. Levied at the final stage they can be and often are, selective. They are, however, regressive, they tax living standards, they involve an inflationary element and being closely tied to consumer spending are subject to fluctuations in yield.

These advantages and disadvantages are applicable to all sales taxes whether levied by central or local government. If imposed locally they have additional disabilities and are subject to certain constraints. Central governments, needing them as economic regulators, fear that local sales taxes may operate to hamper or even defeat their attempts to correct economic imbalances. There is also the unequal geographical yield, especially of taxes levied at the wholesale stage because dealers and manufacturers are not evenly spread throughout a country.

Finally, there are the problems of differential rates in different areas and the consequent temptations to tax dodging.

The possibility of introducing local sales taxes into local financial arrangements has been widely canvassed recently. The RIPA authors (*Sources of local revenue*, S. H. H. Hildersley and Raymond Nottage, Royal Institute of Public Administration, 1968), having ruled out purchase taxes because of unequal incidence, considered but rejected general sales taxes on account of the modifications they would require in the existing purchase tax. They were also impressed by the practical difficulties of collection from so many retailers. In the course of an interesting examination of the value added tax they were led, as was the Richardson committee, to think it was unsuitable; even more so for local use, they believed, for intermediate values would be added at different places and in different amounts. Taxes on alcohol they excluded because of the many points of sale and because they thought that the central government would not, for many reasons, relinquish its hold. Betting and gambling were not adopted, for the authors generally regarded them as difficult to localise, liable to lead to confusion if rates differed in different areas, and needing a strict control which was better imposed by the central government. They felt that if betting and gambling taxes were turned over to local authorities they would in effect become merely assigned revenues.

The IMTA group on the other hand thought that the existing purchase tax "possibly varied in scope" was a "credible candidate for transfer to local government, although they were conscious of the difficulties. The growth rate, they concluded, was not likely to be sufficient to bear the whole of the expanding needs of local authorities. Nonetheless a tax which automatically grew in times of inflation was an attractive proposition. In short the tax would be useful as one element in a local authority's tax portfolio. They considered at some length the problem of evasion by "fetching and carrying" if tax rates in adjacent areas differed materially. They believed, however, that the differences would be marginal, and not sufficient to tempt purchasers on any large scale to make jour-

neys to secure goods elsewhere. It is perhaps significant that rates in the pound of the existing property tax have tended to move together despite the autonomy of local authorities. The group discussed at considerable length the effect of local sales taxes on their use by the British government as an instrument of fiscal control. They felt that unless the tax allowed local government autonomy in fixing the rate it could not be regarded as a true local tax. This discretion would inevitably be inconvenient to the central authorities; but they were, however, of the opinion that the effect would be minimal, and pointed out that the mechanism of the rate support grant could be employed to prevent authorities using the sales tax, or indeed any other tax, in a way which would frustrate central policy. It was pointed out that the rate support grant, which allows for the differing needs and resources of local authorities in the distribution of central government monies, could also be used for any redistribution of local authorities' own taxation proceeds found to be necessary. In conclusion the group suggested various ways in which the central government could retain sufficient powers to make sure that the national financial interest was not jeopardised, for instance, by limited local autonomy in fixing rates of tax. The central government could retain power to control in times of crisis by direct prescription, or by adjustment of the rate support grant. The treasury could, and probably would, prescribe margins sufficiently fine to ensure that discrepancies between national and local policy would not be of a high order. There was also the possibility of sharing the tax with the central government as happens in some of the states of the US. Some emphasis was placed on the value of a sales tax as a complement to the rates, which are not so vulnerable to economic fluctuation. The rate levy would be stable, whereas the fluctuating sales tax would provide some guideline to the authorities for the pace of expansion. The group concluded, "in this respect it might be argued that a tax on consumer expenditure makes an ideal partner for the rating system". (*Sales tax as a source of local government finance.*)

Sales taxes are naturally attractive to metropolitan authorities and are of particular value under a two tier system. Roland Freeman, a former chairman of the Greater London Council finance committee ("Thoughts on a sales tax", article in *Local Government Finance*, March 1968) visualised the upper tier operating the sales tax and the lower tier the rates. He believed that the potential was indicated by sensational results achieved by Eire since 1963 when a general sales tax was introduced. Its success was phenomenal, although it was introduced on only a very narrow margin of votes, and after an intensive, hostile campaign. Roland Freeman dealt fully with what he regarded as the chief objections to the tax; its regressive nature, the problem of physical boundaries, and the unequal yield. As to its regressiveness he pointed out that this was a feature of a very sizeable part of our taxation system. He thought, as did the IMTA study group, that boundary problems would not be material or important and cited the present variations in the price of petrol in adjacent areas in support of his contention. The unequal yield in various areas he recognised as needing correction. Writing in 1968 he pointed out that only a very small retail tax would be needed to replace the rates in the GLC. Rates would be retained by the London boroughs. Clearly a sales tax would be feasible and particularly attractive to the metropolitan authorities now proposed. Its relation to the purchase tax and the proposed value added tax would of course need careful study.

motor taxes

A motor tax may take one of four forms: (a) a tax on the purchase of cars, (b) charges for the use of road space, (c) vehicle and drivers' licence duties, (d) a petrol tax (in effect a selective sales tax). Britain makes use of (a), (c) and (d). None of the taxes accrue to the local authorities, though at present they collect the road fund licences and drivers' licences. Apart from parking fees, the only example of (b) is the toll, levied in exceptional cases, such as the Dart-

ford and Mersey tunnels or the Severn bridge. In some countries (Austria is an example) local authorities receive a share of vehicle taxes, and grants for road works are often paid from the earmarked proceeds of motor taxation. In Denmark the former share of motor taxes is now given as a grant. Municipalities in the United States tax the motorist in various ways: vehicles, parking charges, tolls and petrol, the total proceeds forming for the country as a whole about 1 per cent of the total local tax receipts. In general local government makes less use of motor taxation than one might expect.

The advantages of transferring some part of motor taxation to local authorities were considered in both the RIPA and IMTA booklets. The RIPA authors rejected purchase tax generally, and did not consider separately the possibility of taxing the purchase of motor cars. Taxes on road space, being related to congestion, they regarded as unlikely to be sufficiently evenly distributed throughout the country, and likely to be directed to speeding the flow of traffic rather than to revenue raising. In any case satisfactory methods of charging have yet to be developed. Charges to restrain traffic were therefore ruled out as a solution to local government's financial problem. As to licences, a local duty on commercial vehicles was thought to be too complicated, because commercial vehicles are often organised as fleets and operated over wide areas. Licence duty upon them could therefore hardly be a localised revenue. On the other hand licence duties on private cars and motor cycles were put forward as a natural subject for local taxation. They are an obvious local possession, being normally kept where the owner resides. They would represent a widely spread source of income. They would be relatively cheap to collect. Local authorities could be allowed to fix local rates without embarrassment to the government for a number of reasons: they form a small part of the cost of motoring; the motorist is used to differential charges for motor insurance and petrol. He would be unlikely to keep his car elsewhere than at his residence merely to avoid a trifling variation in

the rate of duty. Annual vehicle licences could hardly be regarded as a potential economic regulator to be retained by the central government. At present local authorities collect motor licences on behalf of the department. The impending transfer of collection to the department with the advent of their central computer would present no difficulty; the receipts could easily be distributed to the appropriate local authority. Many of these arguments apply to drivers' licences which were also recommended for transfer, though at rates to be fixed nationally. The authors favoured an increased charge which has since taken place.

They were even more enthusiastic about the possibility of local taxes on motor fuel, a commodity already having a differential price. They proposed that the government should collect a basic tax, probably at the existing rate, and distribute the proceeds to local authorities according to the petrol deliveries. Local authorities would have power to levy a supplementary tax or to grant a rebate on the national rate, both extra collection and repayments being dealt with directly by the local authority. There are about 40,000 outlets for petrol; no single local authority would have an unreasonably large number of taxpayers. Local authorities already have records of places where petrol is sold because they issue the annual petroleum storage licences and grant building permission for new installations. They would require, however, additional powers to collect the monies and to inspect the pumps. The bookkeeping would be of the simplest possible kind. The authors comment: "the advantage of this tax from the point of view of local authority administration is that it is concerned with a standard product sold by a limited number of specialist retailers. It is much to be preferred to one that is concerned with a vast miscellany of items purveyed at a myriad points of sale".

The possibilities of evading a motor fuel tax either by special journeys to neighbouring authorities with a lower tax rate, or by taking in petrol in the cheapest areas whilst on long journeys cannot be

ignored. In 1964 this problem was studied by a panel set up by the Ministry of Transport. In the light of their report, of events since and of the expectation of local government areas much larger than those in the minds of the panel, the RIPA authors concluded that tax differentials between adjacent areas would not be a serious disadvantage. In any case when local government is reformed the point would be of even less importance if the boundaries run through the countryside as seems likely. In this way the RIPA study (*Op cit*) led to a firm conclusion that the best taxes for immediate transfer to local government were the vehicle licence duties, the drivers' licences and the motor fuel tax. If this were done dependence on the exchequer would be reduced from well over a half of net revenue to about a quarter. A table in the RIPA study showed that the transfer of these taxes would help to counterbalance the concentration of rateable value in the south east because cars are more evenly distributed over the regions than rateable values. These proposals have the merit of involving few transitional difficulties and low collection costs.

The IMTA group first considered motor taxes in general, pointing out that a buoyant yield in the past should not be allowed to obscure the likelihood of a smaller rate of growth in the future. However, motor taxes were thought to be productive and valuable taxes to have. Purchase tax on vehicles was regarded as unsuitable for local use because of the unequal yield. Its potential was limited and it was moreover a favourite central government tax for use as an economic regulator. It was thought unlikely that the government would part with such a tax. The IMTA findings supported those of the RIPA on congestion taxes. Different ways of assessing such taxes were considered, including the possibility of licensing on the distance travelled. Such taxes might be experimented with, but their adoption was thought to be several years ahead as it had been by the RIPA study. Parking fees were discounted as general taxes. The IMTA group supported the RIPA findings in favour of the transfer of vehicle and

drivers' licence taxes and also of the motor fuel tax which was regarded as a tax with progressive yield. A complicating feature of the IMTA examination of motor taxes was that the group related it to a suggested abolition of grants for road construction (*Motor tax as a source of local government finance*, IMTA, January 1969). The significant point is that the group agreed with the RIPA study's conclusions and recommendations.

The proposal to transfer to local government licence duties on private cars and motor vehicles and the petrol tax is thus strongly backed. Additional support comes from Ursula Hicks, an eminent authority on local taxation who, in the course of an article on additional sources of finance for local authorities remarked that taxes on motoring were "the most practical new source of autonomous revenue" and that "... a share in the motor taxes is something that local authorities should fight hard to obtain" ("New revenue sources for local government—an assessment". Article in *Local Government Finance*, May 1969). There is no doubt that to transfer to local government the vehicle and drivers' licences and the motor fuel tax would be the simplest and most effective way of providing the new local authorities with the *immediate* additional resources they need.

new taxes

All the proposals for additional local taxes so far considered have taken the form of transferring or sharing existing central taxes. There remain three proposals for new taxes; a betterment tax on land values, a poll tax, and local government lotteries. Of these, the land value tax has failed in this country as a national tax; the other two, though untried here, are in use in some other countries either centrally or locally. So many sources of taxation have been pre-empted for central governments during recent decades that the absence of precedents in other countries for completely new sources of local taxation is not surprising. Scope for genuinely new ideas is undoubtedly limited.

A local tax on the incremental value of land has been suggested by Anthony Manners. In a recent article ("The case for a local increased value tax on land", Article in *Local Government Chronicle*, 31 October 1970) he traced the history of the abortive attempts in 1947 and 1967 to find a workable way of securing for the central government a share of the increased land values accruing to owners. He argued that these values, conferred by local activities, are a natural local tax and that local authorities should be given optional powers to tax them at rates fixed by themselves. Capital stamp duty and capital gains tax on land would disappear. Owner occupiers would be partially exempted. The yield would be small at first, but it would be important to establish the principle; and eventually the yield would be substantial. In favour of such a tax there is a strong equity argument; values conferred by the community should accrue at least in part to the community through the local authority. If operated through the district valuer, who is informed of all property sales, the mechanics of assessment should be relatively straightforward, and subsequent collection by the local authority not difficult. To avoid too sudden an effect on the property market, introduction would be gradual, for example, property owners who held land for (say) ten years and sold in the first year after the tax was introduced would be required to pay on one tenth of the profit over the period of ownership. Taxes on values conferred by the community have always seemed easily justifiable. It is unfortunate that they are so difficult to apply.

Perhaps this is why local government appears to make little use of them elsewhere. Of the 33 countries reporting to the 1969 IULA congress only Italy and Spain mentioned them. In Italy the tax is on the increase in value of land for building purposes and is compulsory in all towns with over 30,000 population and some others in special categories, such as health resorts or provincial capitals. Spain's tax is on the increase in land value between two successive transfers. It may well be that the solution to the practical difficulties experienced in this

country with a national tax is to apply it locally along the lines suggested by Anthony Manners. The yield would be modest and not a major contribution to local authorities' financial needs.

Local government lotteries differ from other projects for additional local revenues in that two authorities, the GLC and Manchester, have actually sought local powers to establish them. The GLC's attempt in 1969 failed; that of Manchester is now before parliament. From the taxpayer's point of view a local government lottery, though not strictly a tax, may be regarded as an optional tax with the chance of winning a prize. Unlike the proceeds of other taxes, those from lotteries would be segregated and earmarked for particular kinds of activity. Lotteries similar to those which are run by the state in many countries, such as Australia, Israel and Sweden, would be suitable for large authorities or groups of authorities. According to current notions the aim would be to raise money for recreational, cultural or welfare projects, possibly with an emphasis on services for the young and old. The proceeds would not be applied to local government's basic activities, or merely regarded as in aid of local rates. Thus lotteries might be used to nurture orchestral music or subscribe to a national disaster fund, but would not be used for highway maintenance or primary education. Identification with purposes having a popular appeal has been found to be desirable in other countries.

If precedents in other countries were followed, draws would take place at regular intervals. About half of the proceeds would accrue to the local authorities, 10 per cent would be absorbed by expenses and the remaining 40 per cent would be distributed as prize money.

There would be a range of prizes, a few very high, and many in the £500 or £1,000 class. Foreign experience in the management of lotteries (advertising, security, methods of drawing, and so forth) is considerable and could be readily drawn upon. Public confidence in the arrangements, and belief in the purposes

to which the proceeds are to be devoted are the most important elements in success. With the advent of premium bonds a gambling element was accepted as a feature of our public finances. Official objections to lotteries as a source of local authority income could, one might think, scarcely now be raised on moral grounds.

Nor could local authorities be represented as unable to manage an operation so successfully conducted elsewhere. It is, however, significant that when the government in 1968 included in the finance bill a clause authorising the promotion of a lottery, it was rejected in a free vote in the House of Commons, by a large majority. Objections were heard on moral grounds (encouragement of gambling, demoralising effect of large prizes on winners). Some speakers made a distinction between a sweepstake on the result of a national event and a lottery. One of the objections (that the lottery was not in aid of specific projects) would not fully apply to the local government lotteries as now proposed. The Greater London Council's bill was not proceeded with because the objections raised in 1968 to a national lottery were thought to apply with equal force to a lottery promoted by a public authority.

As a means of providing the community with facilities and amenities unlikely to be afforded by regular taxation for many years, lotteries would be a valuable if uncertain source of revenue.

An additional attraction is that they allow local discretion to be exercised. No doubt local authorities will continue to try to secure the necessary statutory powers. The proposed local government reform would bring into being authorities large enough to manage lotteries, either on their own or in co-operation with their neighbours. It would at the same time present an opportunity for general legislation on the subject. Valuable though lotteries would be, however, in no sense could they be put forward as a solution to local government's problem of too heavy a dependence on central government for the maintenance of its services.

Under our present arrangements only the occupier of premises pays a local tax directly. The wife or husband of the occupier, children, lodgers, hotel residents all escape, though in so far as charges for accommodation are loaded to cover rates they may make a contribution; but because it is indirect they will be either unaware or else only vaguely aware of it. The rates element is no more noticeable in a payment for lodging than it is in the charge for a refrigerator or a seat at the theatre. *The poll tax* advocated from time to time at conferences and in journals is intended to redress the position. An annual tax would be levied on all adult residents.

Thereby much greater equity would be achieved and the individual's attention would be pointedly called to his civic responsibilities. The tax, though levied at a modest rate, say £5 to £10 a head, would also make a useful, though limited addition to local revenues. Such are the arguments commonly put forward in favour of a poll tax. They have a certain attraction, and are supported by the experience of some of the New England states where a local poll tax is still used in some of the smaller communities.

The limitations of such a tax are, however, all too apparent. If the rate of levy were to be more than nominal there would be questions of equity. Is the ratepayer himself liable? Is his wife liable? Are pensioners of small means to be liable? There are also the collection problems of levying a small tax with only restricted opportunity to collect it along with another tax. If the ratepayer were liable, presumably he would be billed along with his rates. Others, such as lodgers, would be a shifting population and would have to be billed directly, unless the ratepayer were made responsible for collecting the tax, as is the owner of compounded property. The machinery of PAYE could hardly be invoked for the purpose. Clearly a poll tax would be limited in yield, relatively expensive to collect and of dubious equity. It would hardly achieve its subsidiary objective of stimulating interest in local government, let alone of

providing a sizeable increase in local tax resources. Significantly neither the RIPA nor the IMTA considered it.

miscellaneous revenues

Local authorities receive some 30 per cent of their gross income in the form of rents, recoupment charges, sales and miscellaneous receipts (see table 1 page 2). The percentage varies from local authority to local authority and is influenced by the range of their activities, particularly the extent of their property. Miscellaneous receipts in total have grown almost as fast as expenditure over the past two decades, but this does not mean that individual charges have necessarily kept pace with inflation. It may be accounted for by a greater proportion of revenue producing activity.

Service charges play a less prominent part in England than in many other foreign countries. Thus to take some examples, if rents of property are excluded, English authorities showed, according to the returns made for the purpose of the IULA 1966 congress, that 1.9 per cent of their income was covered in this way. The corresponding figures for Germany and the United States (16.8 per cent and 9.6 per cent respectively) are significant, though generous allowance must be made for differences in classification. A few local services are fully self supporting. Markets and restaurants may even make a profit. English local authorities have fewer and less profitable major trading enterprises. Electricity undertakings, valuable contributors to the rate fund in some countries, are no longer owned by local authorities; water undertakings charge just sufficient to meet expenses; transport services are as likely to make a loss as a profit. The principal social services, health and education, are free, and in general we are reluctant to make charges for the remaining services. Pleasure resorts, realising that charges offer the only way of securing direct contributions from visitors, are more vigilant, they may make substantial profits on their catering, entertainments and other enterprises.

In times of financial stringency the possibilities of increased charges are naturally canvassed, though it is not uncommon to find the topic dismissed with an exhortation to local authorities to examine recoupment policies and in particular to ensure that charges for such facilities as swimming baths and games in parks at least keep pace with inflation. An exception is the booklet put out by the IMTA group (*Local charges as a source of local government finance*, IMTA, December 1968) who managed to find possible additional revenue of no less than £192 million a year without assuming major policy alterations such as selected charges for health, education, social welfare or other services, which under prevailing political philosophies are freely available to all. The potential for more revenue has therefore to be studied in two stages: first the scope for augmenting revenues without a major change in social attitudes; and second the position if such a radical change in attitudes occurred: the IMTA group were mainly concerned with the former. Miscellaneous income can be broadly classed as relating to (a) trading or quasi-trading services either wholly or partially self supporting; (b) services used at the consumer's option such as games in parks and swimming baths, for which charges are substantial but not sufficient to cover the cost; (c) social and environmental services provided for the public at large for which income is incidental. The IMTA group showed that while in class (a), with the exception of cemeteries, income covers or comes near to covering expenditure, in group (b) it varied from 15 per cent to 78 per cent.

Taking the services in each class one by one, the group made a number of suggestions, many of them for marginal increases only. Income from trading undertakings the group thought could be improved in the case of airports and cemeteries, but in transport the trend was towards subsidies from the rates rather than contributions to rates, while water undertakings could continue to aim only at self sufficiency. The group's suggestions about housing finance have at least in part now become national policy.

They did not expect housing to provide an additional source of revenue for general purposes; they aimed at eliminating contributions to housing from the rates: this of itself would be a substantial achievement, because the housing accounts will have to meet in the next decades the burden of replacing old loans carrying a low rate of interest with borrowing at current rates. Ultimately there will be some relief from loans falling out. Passing to the social and environmental services, the group recommended radical changes in charges for school meals (now partially adopted), for recreational facilities and for further education. They thought that loans should be substituted for some kinds of grants to students.

After making minor suggestions the group estimated that if housing no longer needed rate fund subsidy, trading services became self sufficient and incidental service charges were raised by 50 per cent, additional income in the region of £192 million could be secured. This they remarked "does not of itself alter the fundamental relationship between central and local government. A change in this fundamental relationship could only occur through local charges if more dramatic changes in policy with regard to charging were decided upon, for example, making a trading surplus out of housing". In fact the group regarded the chances of some of their suggestions being adopted as remote. They thought that local authorities should have greater freedom in fixing charges, a feature which should come in any case with the new local government structure. Clearly, local authorities need every encouragement to be on the alert and to remember that the imposition of a small charge will sometimes enable them to improve a service. Gramophone record lending activities are a humble but good illustration of this.

This concept of marginal improvement in a minor service, affected by means of recoupment policy, leads naturally to the fundamental reform advocated by those who would abandon the policy of universal free social services (see for ex-

ample *Education for democrats*. Hobart paper 25, 1964). Total dependence on public funds, they contend, cramps the development of the services, leaving them at the mercy of recurrent economic crises and the transient decisions of politicians about the relative importance of governmental services. To import an element of consumer's choice would restore the balance, would bring in a refreshing element of competition and stimulate those services in which we appear to be falling behind other countries. In short it would be a better way of attaining our social objectives, and would offer a more discriminating method of using resources. This concept is invariably advocated subject to the proviso that free facilities should be made available to any sections of the population without the means to pay. Safeguards suggested for ensuring that no one would be excluded from essential facilities are various. The most comprehensive take the form of a negative income tax accompanied by vouchers for education and health services.

These considerations take us beyond the sphere of local government and beyond the scope of this pamphlet. They have, however, to be noted because it may well be that the long term trend is in this direction. If so there would be an opportunity materially to correct the local financial position. In practice the necessary changes might be made piecemeal; this would fortunately offer little technical difficulty because a gradual decrease in the rate support grant could readily be made to accompany growing revenues from charges or indeed from other sources. Manifestly there is no immediate solution to local authorities' financial problems to be found in adjusting charges. Two points emerge: first, greater vigilance in recoupment would be a rewarding policy; and second, a policy of selected charges for the social services, if it came would radically improve the financial situation.

6. summary and conclusions

If local democracy is to be a reality, local authorities must be able to settle, within broad national policies, the scale and direction of their activities. Increasing dependence on the national exchequer is making this difficult to achieve. This view is shared by observers of many kinds; politicians, officials, academics, journalists, even the treasury itself. Ursula Hicks, a leading academic specialist in public finance, writing in 1968 on local taxation commented "the quest for additional sources of local revenue is so urgent that any source where revenue substantially exceeds the cost of administration should be considered". ("Autonomous revenue for local government". Article in *Western Economic Journal*, June 1968.)

The need for reform is acknowledged; the problem is to decide what form it should take. The situation is not entirely new, for additional sources of local revenue have been discussed since the end of the last century. What is new is the urgency, brought about by the rising curve of dependence on the exchequer and by the opportunity to reverse the current trend presented by forthcoming changes in the structure. It is important to recognise the difficulties in the reformer's path; the intimate connection between central and local taxes, the exacting conditions to be fulfilled by a good local tax, the vulnerability to negative criticism of all taxation proposals, the dangers of piecemeal consideration and perhaps most important of all the monumental, positive effort needed to secure action.

The objective is not to supplant the rate, but to ease the burden it has to bear both present and prospective. The immediate aim is to substitute local taxes for national taxes; in principle the latter would fall by the amount by which the former would rise. As to the future, funds for expanding services must be provided without leaving the local authorities excessively dependent on the central government or over straining the rating system. In these pages and in all the major studies, the suitability of proposed taxes has been tested in the light

of the central government's responsibility for overall control of the economy. The situation is less difficult than it might have been, because the rate support grant offers the treasury a uniquely effective way of influencing local financial policies and yet leaving individual local authorities to fix the exact level of expenditure. It is certainly significant that though local authorities have unfettered discretion in fixing the level of the rate, there has never been, to my knowledge, any serious suggestion that the government has been thereby embarrassed by local government in its attempts to control the economy.

The merits and demerits of the various new taxation and money raising policies have already been briefly considered. Of the taxes proposed, three are new: a tax on the incremental value of land, a poll tax, and the institution of local lotteries which, though not strictly taxes, have for convenience been considered along with taxes. The first and third would be valuable additions to local income and might well be adopted, but would not themselves yield the required sums. The poll tax is a more doubtful proposition, though it might serve as the first stage of an eventual local income tax. In the main proposals take the form of supplements to a central tax, such as income tax, or the transfer of central taxes to local authorities, for instance motor licence duties or motor fuel tax. The most fundamental possibility is that of shifting an appreciable part of the cost of major social services (education or health) from the public to the private sector by means of selective charges; admittedly a long range proposal. These charges may come in the future, almost of their own accord, as a by product of social change, but they could not be put forward at the present time as a strong candidate for solving local government's current financial problems.

Clearly the most attractive runners for immediate results, heavily backed by both the RPA and the IMTA reports are the motor car and motor cycle duties and the petrol tax. A general sales tax too would be possible though it involves

more complications. Ultimately, when the Inland Revenue computerisation is complete, local authorities' salvation is likely to be found in a local income tax. Experience abroad shows both its desirability and practicability. The smaller taxes proposed (taxation of land incremental values and local government lotteries) are also worth careful consideration. Local authorities could certainly improve their financial position by more rigorous practices in fixing miscellaneous service charges. A change in attitude of this kind would prepare the way for the more fundamental changes in recoupment arrangements which would be necessary if selective charges are subsequently introduced for major social services. (*Local Government Finance*, the JMTA journal, has during the last three years contained many articles bearing on local taxation in addition to those referred to in the preceding pages. They vary from a series of four articles by L. Boyle dealing with the fundamentals of local finance (March and July 1969 and January and July 1970) to articles on individual aspects such as the two studies on day nursery charges (September) and on further education fees (October 1970).)

The proposals under discussion were put forward in the expectation that the present number of local government authorities in the United Kingdom is to be reduced. The official statements giving the government's proposals for re-organisation now show at least in outline how this is to be accomplished and the 1850 authorities in Great Britain reduced to about 400. (*Local government in England. Government proposals for reorganisation*. Cmnd 4584, HMSO, February 1971. *Reform of local government in Scotland*. Cmnd 4583, February 1971. *The reform of local government in Wales*. Consultative document HMSO, Cardiff.) The various proposals for additional sources of revenue can therefore now be briefly and tentatively considered in relation to the new structure. Deeper consideration must await more detailed knowledge of the new authorities, their boundaries and obligations. England will be taken as the example: the position is not very different in Wales and Scotland.

In England, the new counties and the six metropolitan counties would be suitable authorities to handle any of the proposed additional sources of revenue. In the metropolitan areas, the metropolitan districts, having the greater weight of expenditure, might be able to justify exclusive possession of the existing rate; in any case they will certainly need the greater share of it. This would leave to the metropolitan authorities the new tax or taxes. Elsewhere, the district councils, the corresponding authorities to the metropolitan districts, are to be differently placed because they are to have no responsibility for education, personal social services or libraries. Further, a preliminary examination of financial statistics shows that their expenditure per head, though never very high, will vary widely from place to place because of their differing characteristics; they will range from densely packed urban areas to thinly populated rural tracts of country. For them too the rate is the obvious tax, but they will have to share it with the counties, as happens now in county areas. Counties would have, and would need, the new tax or taxes in addition. In the absence of forecasts of the relative financial burdens of the different types of authorities all these suggestions are inevitably provisional.

Unhappily the government's intentions for local government finance are not discussed in the white paper. A green paper "setting out the possibilities in the field of finance" is to be issued later in the year. It is to deal with sources of revenue and proposals for improvement of the rating system. The paragraph dealing with finance concludes with the comment "the government have already carried their examination far enough to be satisfied that the structural reforms outlined in this white paper can go forward without prejudicing alternative financial arrangements". This seems to mean that the case for changes in the financial arrangements is accepted but that the preparations for structural change need not await decisions on finance. However, when it comes to implementing the changes surely the aim should be to bring them into operation together.

If then, as appears to be the case, additional taxes could be made available and could be fitted into the new structure, does anything stand in the way of local taxation reform? There is the further stumbling block of the treasury attitude. Indeed the most striking aspect of a great deal which has been written about local taxation during the last two decades is the often expressed conviction that the additional local revenues which could and should be found will not materialise because of treasury opposition. This is surely an unjustifiable reason for inaction, especially as the treasury themselves are aware of the implications of recent trends both for local freedom and financial control. It is to the dangers of this attitude of resignation that public attention needs to be directed.

There is naturally a difference between the local authorities' approach and that of the treasury. The latter think inevitably of global figures, national policy and central control. They see the nation's affairs as focussed in comprehensive, over all statements. The local authorities on the other hand, are concerned with the fragments making up the whole and with the preservation of a local will which may not always coincide exactly with what is assumed to be national policy. The two views are of course not irreconcilable. There should be room in a democratic country for two levels of government, each with its area of political responsibility. The local level should not have to be compelled to live in perpetual fear of a centralising vortex. However, what is clear and perhaps understandable, however unfortunate it may be, is that local government is unlikely to get its deserts without strenuous efforts and the exercise of public pressures. The experiences of West Germany is illuminating in this respect. The representatives of local government were well aware of the difficulties of securing amendments to the complicated federal tax law. They knew that additional local taxes would not be handed to them on a plate. Reforms were secured by an intensive campaign managed by the local government associations. Pressure groups were form-

ed; politicians, prominent industrialists, journalists, all were left in no doubt about local government's needs and financial disabilities. By means of articles in newspapers and journals, meetings, conferences and even a trip on the Rhine for influential persons, the associations of local authorities hammered home their points. An official committee of enquiry was set up, a scheme was drafted, and legislation followed.

It should not be beyond the wit of local government in this country, similarly to take the initiative and launch a campaign to secure a greater measure of financial independence. To wait for proposals from the centre may be to let the opportunity slip. On this occasion action has to be induced, and will depend eventually upon initiatives at the political level, though fortunately matters of party ideology are not involved. It is for this reason that the theme underlying this pamphlet has been the need for prompt action to prevent local democracy's disappearance because of failure to accept its implications for taxation policy.

fabian society the author

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Dr. Marshall was City Treasurer of Coventry from 1944 to 1964, when he became Associate Director of the Institute of Local Government Studies at the University of Birmingham. He is a past President of the Institute of Municipal Treasurers and Accountants and an ex-Chairman of the Royal Institute of Public Administration. He has served on various government committees, including the Royal Commission on Local Government in England (1966-1969), has carried out a number of advisory missions in overseas countries (including the Sudan, Uganda and Kenya) and has written over many years on local government and local government finance.

The author wishes to express his "debt to those whose writings have obviously provided the material for this study. I am grateful to them for setting out their views so clearly. To Maurice Stonefrost, Secretary of the Institute of Municipal Treasurers and Accountants, particular thanks are due. He discussed the draft with me and allowed one of his staff to supply some of the figures. The responsibility for the result is, of course, entirely mine."

The Fabian Society invited Hedley Marshall to undertake this study because he is Britain's foremost authority on local government finance. He asks the Society to point out that his acceptance of this commission in no way implies an acceptance of any particular political philosophy.

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